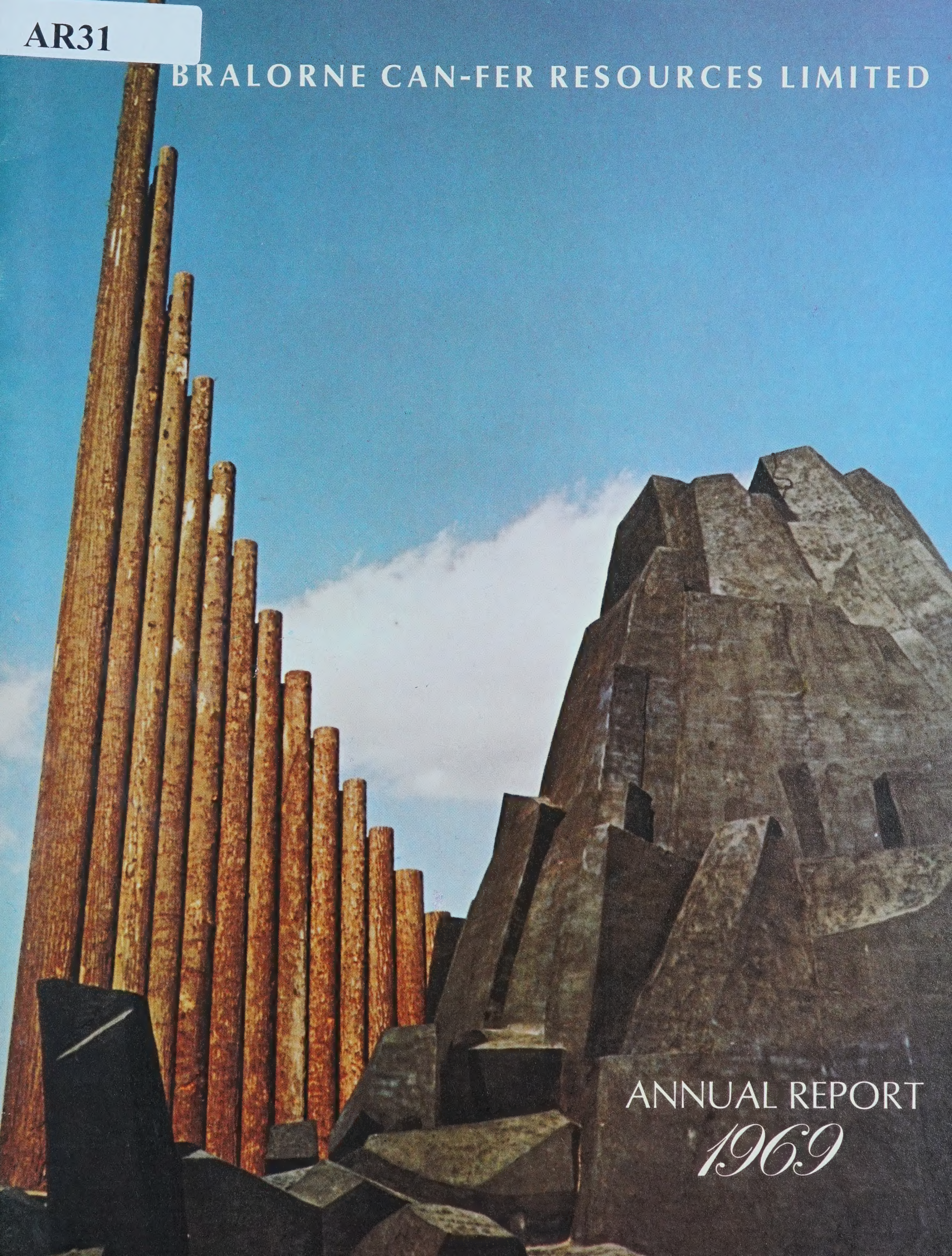
BRALORNE CAN-FER RESOURCES LIMITED



ANNUAL REPORT 1969

Bralorne Can-Fer Resources Limited

Incorporated under the laws of the Province of British Columbia
Capital: 7,500,000 Shares without Nominal or Par Value

Registered Office

320 Marine Building
355 Burrard Street
Vancouver 1, B.C.

Toronto Office

Suite 1407
100 Adelaide Street West
Toronto, Ontario

Mine

Bralorne, B.C.

Operating Subsidiary Company

Bralorne Oil & Gas Limited
Calgary, Alberta

THE COVER . . .
The British Columbia pavilion at EXPO 70, Osaka, Japan, is shown from an unusual angle, emphasizing the growing ties between Canada and Japan in the natural resource field, particularly mining. The photo is by courtesy of the Department of Industrial Development, Trade and Commerce, Province of British Columbia.

Bralorne Can-Fer Resources Limited

Incorporated under the laws of the Province of British Columbia
Capital: 7,500,000 Shares without Nominal or Par Value

Directors

*Douglas A. Berlis, Q.C., Toronto, Ontario
Partner, Edison, Aird & Berlis

Leonard W. Bughman, Ligonier, Pennsylvania
President, Bughman Sales Company

*C. A. Burns, Toronto, Ontario
President, C. A. Burns Consulting Limited

H. Michael Burns, Toronto, Ontario
Executive Vice-President, Burns Bros. & Denton, Inc. and *Director*, Burns Bros. & Denton Limited

*George H. Davenport, Vancouver, British Columbia
President, Bralorne Can-Fer Resources Limited

Pemberton Hutchinson, Philadelphia, Pennsylvania
Vice-President, Penn Virginia Corporation

*John L. Kemmerer, Jr., New York, New York
President, Whitney & Kemmerer, Inc.

Edward B. Leisenring, Jr., Philadelphia, Pennsylvania
President, Penn Virginia Corporation

*Paul Porzelt, New York, New York
Chairman of the Board, Bralorne Can-Fer Resources Limited

Peter A. Revell-Smith, London, England
Chairman, Sterling & Overseas Investments Limited

Malcolm D. Richardson, Toronto, Ontario
President, Richardson, de Pencier Ltd.

*Member, Executive Committee

Officers

Paul Porzelt, *Chairman of the Board*
George H. Davenport, *President*
C. A. Burns, *Executive Vice-President*
Douglas A. Berlis, Q.C., *Vice-President*
James S. Thomson, *Vice-President*
Peter G. Wiseman, *Secretary*
Thomas F. Griffin, C.A., *Treasurer*

Auditors

Price Waterhouse & Co.
Vancouver, B.C.

Transfer Agent and Registrar

The Royal Trust Company
Vancouver, Toronto and Montreal

Bralorne Can-Fer Resources Limited

Report to the Shareholders:

Your management, in the endeavour to make your Company a vibrant force in the Canadian natural resources field, took several significant steps towards that goal. The most important was the purchase of Can-Fer Mines Limited, a royalty holding and exploration company. The acquisition of Can-Fer was approved by the shareholders of both companies subject to a favourable ruling by the Commissioner of Internal Revenue of the United States of America. This ruling was received and the acquisition was consummated early in December, 1969. Your Board of Directors was then strengthened by the inclusion of all the former directors of both companies and the name of the Company was changed to Bralorne Can-Fer Resources Limited to indicate the broader goals of the organization.

Gold sales and other income, including the income of Can-Fer for the full year, totalled $2,389,362. Advance royalties received from Algoma Steel Corporation for the Kowkash iron ore property amounted to $200,000. Advance payments will continue at this annual rate until 1985 unless Algoma Steel places the property in production in which event royalties would be payable on a tonnage basis. Algoma Steel has not yet stated when it plans to place the property in production.

Income before providing for depreciation and depletion, other non-cash items and the write-off of certain exploration expenditures was $632,811 and after deducting these amounts the net income for the year was $24,031. This was after deduction of the cost of the Can-Fer acquisition which was approximately $85,000. Working capital at December 31, 1969 was $2,888,292 including cash and time deposits amounting to $2,068,178.

The note received in 1968 for the sale of Concrete Technology (B.C.) Ltd., a former subsidiary producing prestressed and precast concrete, was reduced to $1,575,000 in 1969 by payment of the first instalment. This note carries interest at 7%.

Income from the gold mine at Bralorne, British Columbia, decreased due to a reduction in the tonnage and grade of ore treated. A more detailed account of this operation is included in the report by Mr. G. H. Davenport, President.

Exploration efforts of the Company continued unabated in 1969. During the work season a total of 23 geologists, engineers and prospectors was employed. Since the Company has on its Board of Directors several members and organizations represented who are leading coal producers and experts, it was decided that the Company could with advantage enter this field in western Canada. A full account of these activities is included in the report of Mr. C. A. Burns, Executive Vice-President.

Bralorne Can-Fer Resources Limited owns 2,041,295 shares of Bralorne Oil & Gas Limited or 71% of the shares currently outstanding. During 1969 the Board of Directors of that Company took certain steps which have transformed Bralorne Oil & Gas Limited from a small, scarcely-known unit into an aggressive and well financed company in the Canadian petroleum industry.

Firstly, in March 1969, Mr. Harry Dernick was elected President of that company. Mr. Dernick has been active in the petroleum industry in Canada and the United States since 1947 and has a successful record of acquiring and developing oil and gas production. An active exploration and acquisition policy was begun immediately. As a result of acquisitions, unitization of properties and a re-evaluation

arising from better than anticipated performance of the Manitoba properties, reserves at year end totalled 4,137,000 barrels of oil and 27 billion cubic feet of natural gas compared to 1,159,000 barrels and 20 billion cubic feet respectively at the previous year end. In January, 1970, a further acquisition added 700,000 barrels of oil and 13 billion cubic feet of gas to the above reserves.

Secondly, in October 1969, an agreement was completed with Chemcell Limited, a major manufacturer of chemicals, synthetic fibres, fabrics and carpets, whereby Chemcell expects to invest over $10 million over the next five years in the exploration for and acquisition of oil and gas properties. Chemcell Limited, having decided to move into the oil and gas business, investigated a large number of companies before selecting Bralorne Oil & Gas Limited to manage its investments in this field. Bralorne Oil & Gas will earn fees and working interests for acting as manager and will participate in the program on its own behalf. Chemcell has the option, during the five year period, of progressively acquiring treasury shares of Bralorne Oil & Gas until it has a controlling interest, at a total cost of between $5 and $6 million. Chemcell has purchased 250,000 shares to date.

Because your Company's percentage interest in Bralorne Oil & Gas Limited will gradually decline as Chemcell exercises its options to purchase shares, the accounts of that subsidiary have not been consolidated with those of your Company but are shown separately in this report. The 1968 figures for comparison have been restated accordingly.

Your Directors are determined to make Bralorne Can-Fer Resources Limited and Bralorne Oil & Gas Limited vital forces in the natural resources field and, in addition to carrying on an exploration program, will endeavour to acquire other companies which are active in this field.

The management is ably assisted by a competent staff experienced in mine management, exploration and administration. We express our appreciation to them and to all Company employees. We also thank the shareholders who have loyally supported the actions of the Board.

On behalf of the Board,

Paul Porzelt,
Chairman

April 3, 1970

Report on Operations

The mine at Bralorne continued to return excellent results considering the many difficulties inherent in operating at great depth and the continued rise in costs of all supplies and services as opposed to a fixed price for gold.

Tonnage mined was slightly lower than in 1969, primarily due to a deferral of production from 44 level while development of lower levels was in progress.

Profit on operations before depreciation and depletion was $284,760, compared to $501,019 in 1968.

	1969	1968
Tons Milled	94,396	100,660
Mill Head Grade	0.51	0.54
Ounces Gold Recovered . . .	46,429	52,686

Mine Development and Exploration

Drifting on the 77 vein on 44 level was completed in July and developed an ore shoot 520 feet in length averaging 7.2 feet in width and 0.80 ounce gold per ton. In view of these encouraging results, it was decided to defer production from this level and to explore the vein below by driving a decline in the ore. This work, carried out by trackless equipment, has been completed. Values and widths encountered were comparable to those on 44 level. Mining on 44 level and below has commenced.

Early in the year two 48-inch diameter holes were bored to provide ventilation and service to the new 44 level. These completed our raise boring program and the machine was sold. The lower levels of the mine could not have been developed without this raise boring machine and the overall cost was substantially reduced by employing it on outside contract work when it was not required at the property.

Ore Reserves

Ore reserves at year end totalled 165,000 tons of an average grade of 0.57 ounce gold per ton. It is anticipated that up to 55,000 tons averaging 0.49 ounce gold per ton will be left as pillars and that approximately 110,000 tons of an average grade of 0.60 ounce gold per ton will be available for mining. Figures include a 20% allowance for dilution.

Cost-Aid

Mining operations at Bralorne, like those at most other Canadian gold mines, would not be profitable without the assistance payable under the Emergency Gold Mining Assistance Act. This Act, originally passed in 1948, will expire at the end of 1970 unless further extended. The Government of Canada is presently examining the implications of termination of the Act and no decision has been made regarding extension.

Other Mining Properties

In addition to carrying on an extensive exploration program, your Company is continuing its search for opportunities to participate in mining properties which require senior financing and experienced operating management to bring them into production.

In October 1969, an agreement was negotiated with Dolly Varden Mines Ltd. (N.P.L.) whereby your Company has the option, exercisable on or before April 30, 1970, to enter into a Joint Venture to place the Dolly Varden silver property at Alice Arm, British Columbia in production. A program of diamond drilling and sampling was carried out and the results are being studied.

Acknowledgement

I wish to thank all employees for their excellent performance throughout the year.

G H Davenport

G. H. Davenport,
President

April 2, 1970

Report on Exploration

During 1969 the Company carried on exploration principally through the Can-Fer Exploration Syndicate. The search for base metals, silver, uranium and coal by the Syndicate was made throughout Canada.

The Can-Fer Exploration Syndicate was formed in 1968 with Bralorne Pioneer, Can-Fer, Pacific Petroleums Ltd. and Bralorne Oil & Gas Limited as participants. With the merger of Bralorne Pioneer and Can-Fer in December, 1969, Bralorne Can-Fer Resources Limited gains the participation in the Syndicate of both companies.

Uranium Program

One of the largest projects undertaken by the Syndicate during 1969 was exploration of a 230-square mile permit southwest of Wollaston Lake in northern Saskatchewan. Before the end of the first permit year, in December 1969, two claim blocks totalling some 3,590 acres plus 10 claims covering 400 acres within the area of the permit were taken up. Another claim block containing about 1,400 acres has been staked since.

Aerial, geological, and ground radiometric surveys and prospecting were conducted on the permit, plus some trenching and detailed geological mapping in areas of radioactive occurrences.

Uranium mineralization was found in several places within the staked areas, in mixed rock assemblages of pegmatite, granitic gneisses, and schists. The highest grade occurrence found is at the edge of and runs into a lake. The mineralized zone is exposed for a length of 170 feet and a width of 5.5 to 34 feet with neither the full width nor length believed to be exposed. The average grade of channel samples from six trenches is 1.8 pounds U_3O_8 per ton. Drilling is underway on this occurrence from the ice of the lake.

Some 4,800 feet southerly, at the edge of the same lake, a second occurrence of uranium mineralization is in pegmatite. The pegmatite is exposed on a knoll across a width of 130 feet. Near the centre of the pegmatite, within a width of 60 feet, assays were obtained running 0.7 pounds U_3O_8 per ton across 25 feet and 0.4 to 0.7 pounds U_3O_8 per ton across 18 feet. In another area a few miles away similar, rather low grade assays were obtained across widths of over 50 feet. Further work will be done in these areas.

In northern Ontario a uranium occurrence, discovered by an airborne survey, has had some trenching done on it. Samples from the trenching give assays of 1.6 pounds U_3O_8 per ton over a width of 9¼ feet and a length of 170 feet. The zone is open for extension on the trend in one direction. More work will be done here.

Coal Project

The export market for Canadian coking coal has greatly improved in recent years. The Company hopes to gain a share of this expanding market and, with this aim in view, last year took out a coal exploration permit on 22,400 acres in the Savanna Creek area of southwestern Alberta. The area is about 40 miles north of Coleman. The permit is in two groups, a southern group of five sections and a northern group covering 30 square miles. The two groups are three miles apart.

Geological work started during August, but was suspended for about one and a half months because of forest fire hazard. Work was resumed on the southern group of five square miles; this entailed prospecting, trenching with a bulldozer, limited geology, and 6,745 feet of drilling in 57 holes.

Seven trenches on the southern group were cut across the coal-bearing formation at roughly half mile intervals. Not all parts of these trenches penetrated the over-burden and reached rock; however, coal seams were exposed in each trench. The widths of coal exposed in the trenches, in seams which are more than six feet in thickness, varies from over 50 feet to over 120 feet.

The Company's coal consultant has made a preliminary estimate of possible reserves in the southern five square miles to be some six million tons of strippable coal and 56 million tons of underground coal above the level of natural drainage. There are additional underground reserves below natural drainage.

Results to date are encouraging. Much additional work, however, remains to be done on these coal properties to assess their full potential. The program will resume in the spring of 1970.

Copper Prospects

A copper prospect on Vancouver Island, owned one-third by the Can-Fer Exploration Syndicate and two-thirds by another mining company, had four diamond drill holes put down on it. Results were discouraging and there is no further work planned at the present time. Also on Vancouver Island, in partnership with the same company, 16 claims were staked on a copper-molybdenite discovery. Widespread but low grade copper-molybdenite mineralization is indicated. No additional testing of the prospect is planned.

Elsewhere in British Columbia a small copper discovery was staked by the Syndicate. More work is required to assess the potential of the find.

Work on other prospects held by the Syndicate was either negative or inconclusive.

A copper-molybdenite prospect near Port Hardy, Vancouver Island, in which Bralorne Can-Fer Resources has a direct 29% interest, had more geology done on it during the year. A partner is being sought to participate in an extensive exploration program on the property.

During 1970 the Company will continue to explore in Canada through the Can-Fer Exploration Syndicate. At the same time, management is pursuing a policy that would broaden the Company's scope of activities, through possible acquisitions of other companies.

C. A. Burns,
Executive Vice-President

March 15, 1970

Bralorne Can-Fer Resources Limited

Balance Sheet as at December 31, 1969 (Note 1)

Assets

	1969	1968
CURRENT ASSETS:		
Cash and time deposits	$2,068,178	$1,235,462
Bullion, at net realizable value	146,910	132,007
Marketable securities, at cost less amounts written off (market value $4,550, 1968 — $47,688)	6,104	45,019
Receivable under The Emergency Gold Mining Assistance Act	208,470	242,720
Accounts and notes receivable	581,014	720,766
Inventories of stores and supplies, at cost less allowance for obsolescence, not in excess of replacement cost	114,204	98,849
Refundable deposits and prepaid items	28,851	22,755
Special refundable tax	13,044	8,033
	3,166,775	2,505,611
INVESTMENT IN SUBSIDIARY,		
Bralorne Oil & Gas Limited (Note 1)	1,897,837	2,096,566
OTHER ASSETS:		
Long term receivable (Note 2)	1,400,000	1,575,000
Royalty contract with The Algoma Steel Corporation, Limited, at nominal value (Note 3)	1	1
Life insurance policy, at cash surrender value	58,270	55,912
Deferred exploration expenditures (Note 1)	360,968	237,162
Deferred income taxes (Note 4)	16,000	56,000
	1,835,239	1,924,075
CAPITAL ASSETS (Note 3):		
Mining properties, development and exploration, at cost less accumulated depletion of $4,277,238 (1968 – $4,141,874)	360,874	496,238
Buildings, plant and equipment, at cost less accumulated depreciation of $3,688,231 (1968 – $3,733,929)	434,295	584,163
	795,169	1,080,401
	$7,695,020	$7,606,653

Liabilities

	1969	1968
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 244,562	$ 176,860
Wages payable	33,921	37,287
	278,483	214,147
CAPITAL AND SURPLUS:		
Share capital (Note 5) —		
Authorized:		
7,500,000 shares of no par value		
Issued:		
4,851,710 shares	5,930,428	5,930,428
Earned surplus — per statement attached	1,486,109	1,462,078
	7,416,537	7,392,506
	$7,695,020	$7,606,653

SIGNED ON BEHALF OF THE BOARD:

Paul Porzelt, Director

George H. Davenport, Director

Auditors' Report

To the Shareholders of Bralorne Can-Fer Resources Limited:

We have examined the balance sheet of Bralorne Can-Fer Resources Limited as at December 31, 1969 and the statements of income and earned surplus and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and disposition of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after the restatement (with which we concur) of the financial statements for that year as explained in Note 1.

Vancouver, B.C.
April 6, 1970.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Bralorne Can-Fer Resources Limited

Statement of Income and Earned Surplus

For the Year Ended December 31, 1969 (Note 1)

	1969	1968
Sales and other income:		
Gold bullion	$1,755,255	$1,996,278
Royalty income	200,000	200,000
Investment and other income (net)	296,662	194,209
Profit on disposal of investments	137,445	30,003
	2,389,362	2,420,490
Costs and expenses:		
Gold mining (Note 3)	2,162,843	2,293,548
Recoverable expenses under The Emergency Gold Mining Assistance Act	(476,824)	(541,089)
Administrative and general, less management charges to other companies	290,249	216,509
Exploration (Note 1)	306,334	7,301
Share of loss of Bralorne Oil & Gas Limited (Note 1)	42,729	34,011
Loss of subsidiary disposed of in 1968	—	48,908
Deferred income taxes	40,000	153,000
	2,365,331	2,212,188
Income before extraordinary item	24,031	208,302
Adjustment arising on disposal of investment in subsidiary	—	206,585
Income for the year	24,031	414,887
Earned surplus — at beginning of year	1,462,078	1,047,191
Earned surplus — at end of year	$1,486,109	$1,462,078
Income per ordinary share —		
Before extraordinary item	$.01	$.04
After extraordinary item	$.01	$.09

Bralorne Can-Fer Resources Limited

Statement of Source and Disposition of Working Capital

For the Year Ended December 31, 1969 (Note 1)

	1969	1968
Source of working capital:		
Income for the year	$ 24,031	$ 414,887
Non-cash items affecting working capital — Depreciation, depletion, deferred income taxes and share of loss of subsidiary	302,446	450,706
	326,477	865,593
Instalment on long term receivable	175,000	—
Recovery of investment in and advances to subsidiary, less portion included as a non-current receivable	—	432,197
Reduction (increase) in investment in shares of Bralorne Oil & Gas Limited	156,000	(299,036)
Recoveries (expenditures) on capital assets (net)	65,515	(11,918)
	722,992	986,836
Disposition of working capital:		
Exploration expenditures, less amounts charged to current income	123,806	237,162
Increase in cash surrender value of life insurance policy	2,358	2,400
	126,164	239,562
Increase in working capital during the year	596,828	747,274
Working capital at beginning of year	2,291,464	1,544,190
Working capital at end of year	$2,888,292	$2,291,464

Bralorne Can-Fer Resources Limited

Notes to Financial Statements

December 31, 1969

1. ACCOUNTING PRINCIPLES AND PRACTICES:

The financial statements of the company (formerly Bralorne Pioneer Mines Limited) include the assets, business and undertaking of Can-Fer Mines Limited (Can-Fer) acquired under the terms of an agreement dated April 30, 1969 and effective on December 2, 1969, the date of closing. This transaction has been accounted for on a pooling of interests basis with related adjustments for income tax allocation accounting (Note 4). Accordingly, the financial statements as at December 31, 1969 include the acquired assets and liabilities of Can-Fer at their book values and the income and expenses of Can-Fer for the year then ended, share capital includes an amount equal to the share capital of Can-Fer, and earned surplus includes the earned surplus of Can-Fer adjusted for certain assets excluded from the purchase transaction. The comparative figures for 1968 have been restated in a similar manner to reflect this transaction.

The company's majority interest in Bralorne Oil & Gas Limited comprises 2,041,295 shares — 74.9% (2,236,295 shares — 89.5% at December 31, 1968). In 1969, Bralorne Oil & Gas Limited concluded an exploration agreement with a subsidiary of Chemcell Limited which includes provisions whereby that company can acquire a majority share interest in Bralorne Oil & Gas Limited over a period not exceeding five years. The first 125,000 shares of Bralorne Oil & Gas Limited covered by this agreement were issued during 1969. In the circumstances, the company has decided not to consolidate Bralorne Oil & Gas Limited in 1969. Instead, the investment in this subsidiary is carried at cost plus the company's equity in its undistributed earned surplus since acquisition, and the statement of income and earned surplus includes the company's share of the net loss of this subsidiary for 1969 and 1968.

In 1969, the company adopted the practice, retroactive to 1968, of deferring exploration expenditures on mining properties continuing under examination (for consistency with the policy followed by Can-Fer Mines Limited prior to acquisition). Such costs will be amortized against production from the relevant properties or written off upon cessation of work thereon. As a result of this retroactive change in accounting principles and the application of tax allocation accounting to the Can-Fer operations, net income for the year ended December 31, 1968 has been restated and decreased by $47,874, and earned surplus balances as at the beginning and end of 1968 have been restated and increased by $389,000 and $341,126, respectively.

2. LONG-TERM RECEIVABLE:

Under the 1968 agreement for the sale of the company's interest in Concrete Technology (B.C.) Limited (now renamed Pacific Prestress Ltd.), a ten-year 7% instalment debenture of that company was received on account of previous advances. The remaining equal annual debenture instalments are due in November each year to 1978, the non-current portion being shown separately in the accompanying balance sheet. Final consideration has yet to be determined under the agreement but, in the opinion of the company, it should not differ materially from the amount recorded in the attached financial statements.

3. CAPITAL ASSETS, DEPLETION AND DEPRECIATION:

Under the terms of an agreement dated March 25, 1965 Can-Fer Mines Limited granted an option to The Algoma Steel Corporation, Limited to lease certain mining properties, which were included in the assets acquired by the company and are carried at cost ($203,255). The sum of $1,340,000 was received by Can-Fer Mines Limited upon the exercise of this option and The Algoma Steel Corporation, Limited has leased the mining properties for 99 years computed from August 1, 1965. Among other terms, the agreement provides for the following:

(a) An advance annual royalty or rental of $200,000 for a maximum period of 20 years or until the date of the first shipment of iron ore pellets from the mining properties. However, from the commencement by the lessor of incurring expenditures to bring the properties into commercial production, no royalty or rent shall be payable for the lesser of (1) four years or (2) the period to the date that iron ore pellets are shipped from the mining properties. These annual payments are to be applied against royalties as calculated in (b) below.

(b) Commencing with the first commercial shipment of iron ore pellets from open cut mining operations, the company shall receive royalties based on tonnages shipped as follows:

40¢ per gross ton shipped during the first year;

50¢ per gross ton shipped during the second year;

60¢ per gross ton shipped during the third year; and

65¢ per ton thereafter.

On iron ore pellets produced and shipped from ore mined by underground mining operations the royalty is 30¢ per gross ton of such pellets.

The annual royalty on iron ore pellets shall not be less than $350,000. This minimum payment would be reduced if steel ingot production in Canada is less than 75% of rated capacity.

No provision has been made for depletion of these mining properties since no ore has yet been produced from them. Depletion of other mining properties has been continued on a unit of production basis, having regard to the company's proven ore reserves at December 31, 1969.

With minor exceptions, depreciation has been continued on a straight-line basis at rates determined from estimated ore reserves and estimated salvage values of buildings, plant and equipment.

Depletion and depreciation, charged principally to gold mining in the accompanying statements of income, are as follows:—

	1969	1968
Depletion	$135,364	$155,700
Depreciation	84,353	107,995
	$219,717	$263,695

4. DEFERRED INCOME TAXES:

The company follows the tax allocation basis of accounting for income taxes, as recommended by the Canadian Institute of Chartered Accountants. Accordingly, income tax adjustments resulting from claiming capital cost allowances and mining exploration expenditures for tax purposes in amounts different from related depreciation and exploration expenditures charged against income have been accounted for in the financial statements. This practice was extended to the assets and operations acquired from Can-Fer.

The company has a loss carry-forward for income tax purposes of approximately $185,000 for which the tax allocation basis of accounting was not appropriate. This loss carry-forward is available to 1974 to reduce future income tax provisions.

5. SHARE CAPITAL:

During the year, the company increased its authorized capital from 2,000,000 to 7,500,000 shares of no par value and issued 3,234,260 shares to Can-Fer Mines Limited for a stated consideration of $1,496,028, in connection with the agreement to purchase certain assets, business and undertaking of that company as explained in Note 1.

6. DIRECTORS' REMUNERATION:

The aggregate direct remuneration paid to the company's directors, including salaries of those holding positions as officers of the company, amounted to $43,370 for the year ended December 31, 1969.

Bralorne Oil & Gas Limited and subsidiary companies

Consolidated Balance Sheet – December 31, 1969

Assets

	1969	1968
CURRENT ASSETS:		
Cash	$ 315,251	$ 411,916
Short term investments, at cost	—	15,121
Accounts receivable	106,626	80,314
Inventories of stores and supplies, at the lower of cost or estimated realizable value	21,674	25,091
Refundable deposits and prepaid items	31,368	14,747
	474,919	547,189
OTHER ASSETS:		
Loan to an officer of the company (Note 2)	80,000	—
Interest in mining syndicate, at cost (Note 3)	36,669	8,659
5% refundable tax	—	1,944
	116,669	10,603
CAPITAL ASSETS, at cost: (Note 3)		
Petroleum and natural gas interests, less accumulated depletion of $1,108,533 ($951,162 in 1968)	3,189,544	1,829,495
Production and other equipment, less accumulated depreciation of $294,356 ($301,252 in 1968)	405,499	400,744
	3,595,043	2,230,239
INCORPORATION AND STOCK ISSUE COSTS	25,810	25,810
	$4,212,441	$2,813,841

Liabilities

	1969	1968
CURRENT LIABILITIES:		
Bank loan	$ 150,000	$ —
Accounts payable	418,061	103,710
Current portion of term bank loan	140,400	—
	708,461	103,710
DEFERRED GAS SALES	—	19,468
TERM BANK LOAN, secured by an assignment of production	680,758	—
Less — Estimated repayments within one year included in current liabilities	140,400	—
	540,358	—
SHAREHOLDERS' EQUITY:		
Share capital — (Note 4)		
Authorized —		
5,000,000 shares without nominal or par value issuable for an aggregate consideration not to exceed $5,000,000		
Issued —		
2,725,000 shares, of which 225,000 shares were issued for cash in 1969	2,892,551	2,562,551
Retained earnings, per statement attached	71,071	128,112
	2,963,622	2,690,663
	$4,212,441	$2,813,841

APPROVED BY THE BOARD:

Paul Porzelt, Director

Harry Dernick, Director

Auditors' Report

To the Shareholders of Bralorne Oil & Gas Limited:

We have examined the consolidated balance sheet of Bralorne Oil & Gas Limited and its subsidiary companies as at December 31, 1969 and the consolidated statements of income and retained earnings and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for mining exploration costs as explained in Note 3 to the financial statements.

Calgary, Alberta
March 4, 1970

PRICE WATERHOUSE & CO.
Chartered Accountants.

Bralorne Oil & Gas Limited and subsidiary companies

Consolidated Statement of Income and Retained Earnings

For the Year Ended December 31, 1969

	1969	1968
Sales and other income:		
Oil and gas sales	$ 617,795	$ 540,990
Management fees	33,928	200
Interest income	31,735	36,055
	683,458	577,245
Costs and expenses:		
Production expenses	188,615	211,728
Administrative and general expenses	262,675	153,365
Interest expense	37,652	—
	488,942	365,093
	194,516	212,152
Provisions for: (Note 3)		
Depletion	196,482	188,386
Depreciation	29,836	41,741
Mining exploration costs (Note 3)	25,239	27,428
	251,557	257,555
Loss for the year (Note 5)	(57,041)	(45,403)
Retained earnings — beginning of year —		
As previously reported	119,453	173,515
Retroactive adjustment of mining exploration costs (Note 3)	8,659	—
As restated	128,112	173,515
Retained earnings — end of year	$ 71,071	$ 128,112

Bralorne Oil & Gas Limited and subsidiary companies

Consolidated Statement of Source and Application of Working Capital

For the Year Ended December 31, 1969

	1969	1968
Source of working capital:		
Loss for the year	$ 57,041	$ 45,403
Add — Provisions for depletion and depreciation which do not involve a current outlay of working capital	226,318	230,127
	169,277	184,724
Deferred gas sales	(19,468)	19,468
Receipt of 5% refundable tax	1,944	5,206
Proceeds on sale of capital assets	284,450	—
Costs recovered on equalization of investment in oil and gas unit	—	60,098
Issue of 225,000 shares	330,000	—
	766,203	269,496
Disposition of working capital:		
Acquisition of petroleum and natural gas interests	1,530,504	63,834
Less — Production bank loan assumed	718,957	—
	811,547	63,834
Oil and gas exploration and development	232,939	267,821
Purchase of production and other equipment	112,129	37,256
Mining syndicate exploration costs, less amounts charged to current income	28,010	8,659
Loan to an officer of the company	80,000	—
Reduction of term bank loan	178,599	—
	1,443,224	377,570
Decrease in working capital	(677,021)	(108,074)
Working capital, beginning of year	443,479	551,553
Working capital, end of year	$ (233,542)	$ 443,479

Bralorne Oil & Gas Limited and subsidiary companies

Notes to Financial Statements

December 31, 1969

1. BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company's two subsidiaries, Bralorne Petroleums Ltd. and Carleton Oil & Gas Development Co. Ltd., which are wholly owned. Carleton was acquired as of June 30, 1969 and its results of operations have been consolidated from that date.

The excess of the cost of shares of the subsidiaries over the book value of their net assets at dates of acquisition have been applied to petroleum and natural gas interests and depletion is provided thereon.

2. LOAN TO AN OFFICER OF THE COMPANY:

The loan was made to an officer director for his purchase of 100,000 shares of the Company. It is secured only by the related share certificates without other recourse to the debtor. The certificates are to be released to the debtor pro-rata to the loan repayments in ten annual instalments.

3. ACCOUNTING PRACTICES:

The companies follow the full cost method of accounting whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized, whether productive or unproductive, and proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. Depletion of oil and gas properties is computed on the total of all such costs by the unit of production method based on overall estimates of proven reserves of oil and gas. Depreciation of production equipment is also computed by the unit of production method based on overall reserves. In 1969 the Company adopted the practice, with retroactive effect, of deferring mining syndicate exploration costs where properties continue under examination; such costs will be amortized against production from such properties or written off upon cessation of work thereon. In 1968 such costs were charged against income as incurred. This change had the effect of reducing the loss for 1969 by $28,010. For comparison, the 1968 accounts have been restated by $8,659 in respect of costs now deferred.

4. SHARE CAPITAL:

On October 31, 1969 the Company concluded an exploration agreement with Chemcell Resources Limited whereby that company may invest up to $10,400,000 to the end of 1974 in oil and gas properties with Bralorne acting as manager of the funds and earning fees and working interests as well as participating in the programs on its own behalf.

Pursuant to the agreement, Chemcell Resources has purchased 125,000 shares of the Company's capital at $2 per share and has been granted an option to purchase additional shares at the same price. The option is exercisable at the minimum rate of 125,000 shares per quarter provided that, on a cumulative basis, its investment in the exploration program has equalled twice the aggregate issue price of the shares which will then have been issued under the agreement. When its exploration expenditures under the program equal $10,400,000 Chemcell Resources may purchase sufficient additional shares which would provide it with an aggregate holding of 50 percent plus 1 share of the issued, outstanding and reserved capital of the Company. The agreement also imposes certain restrictions on Bralorne and its subsidiaries, which may be waived.

The Company intends to apply for an increase in its authorized share capital of at least 5,000,000 additional shares without nominal or par value and to reserve 2,475,000 shares thereof to satisfy the exercise in full of this option.

100,000 shares of the Company have been reserved for incentive options which may be granted from time to time to officers and employees. During the year options on 45,000 shares were granted at a price of $1.00 per share and on a further 5,000 shares at a price of $1.60 per share. The options are for a term of five years and become exercisable cumula-

tively as to one-fifth of the shares under option each year. At December 31, 1969 none of the options had been exercised.

5. INCOME TAXES:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts; for 1968 and 1969 the companies do not intend to claim capital cost allowances in excess of recorded depreciation. At December 31, 1969 unclaimed drilling, exploration and lease acquisition costs of $745,000 and undepreciated capital costs of $215,000 remain to be carried forward and applied against future taxable income.

The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes. However, with respect to drilling, exploration and lease acquisition costs, the recommendation is questioned by the petroleum industry and this treatment has therefore not been applied to such differences in the timing of deductions for tax and accounting purposes. This view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed for all timing differences between taxable income and reported losses the income statement would have reflected a charge for deferred income taxes in 1969 of $ 22,000 and a credit for deferred income taxes in 1968 of a minor amount. The accumulated income tax reductions to December 31, 1969 approximate $875,000 after including the accumulated tax reductions of subsidiaries at dates of acquisition amounting to $769,000.

6. STATUTORY INFORMATION:

The aggregate direct remuneration paid by the Company and its subsidiaries to all directors and senior officers of the Company was $82,130 for the year ended December 31, 1969.

7. SUBSEQUENT EVENT:

By an agreement dated January 23, 1970 the Company agreed to purchase all of the shares of Junior Oils Ltd. in consideration for the issue of 25,000 shares of the Company and the payment of $300,000.

Bralorne Can-Fer Resources Limited
Annual Report 1969.

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